

BANK INDONESIA REGULATION
NUMBER: 9/9/PBI/2007
CONCERNING
AMENDMENT TO BANK INDONESIA REGULATION
NUMBER 8/21/PBI/2006 CONCERNING
THE QUALITY RATING OF ASSETS OF COMMERCIAL BANKS
CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES

THE GOVERNOR OF BANK INDONESIA

Considering: a. whereas in conducting business, bank should manage credit risk by maintaining the quality rating of assets and forming an adequate allowance for assets losses;

b. whereas maintaining assets quality will enhance the role of Islamic bank as an intermediary institution;

c. whereas pursuant to the considerations set forth in letter a and letter b, it is deemed necessary to amend Bank Indonesia Regulation concerning the Quality Rating of Assets of Commercial Banks Conducting Business Based on Sharia Principles;

In view of: 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement of the State Gazette of the Republic Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement of the State Gazette of the Republic of Indonesia Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

3. Bank Indonesia regulation Number 8/21/PBI/2006 concerning the quality rating of assets of commercial banks conducting business based on Sharia principles concerning Banking (State Gazette of the Republic of Indonesia Number 78 of 2006, Supplement to the State Gazette of the Republic Indonesia Number 4647).

HAS DECREED:...

HAS DECREED:

To enact : BANK INDONESIA REGULATION CONCERNING AMENDMENT TO BANK INDONESIA REGULATION NUMBER 8/21/PBI/2006 CONCERNING THE QUALITY RATING OF ASSETS OF COMMERCIAL BANKS CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES

Chapter I

A number of provisions in Bank Indonesia regulation Number 8/21/PBI/2006 concerning the quality rating of assets of commercial banks conducting business based on Sharia principles (State Gazette of the Republic of Indonesia Number 78 of 2006, Supplement of the State Gazette of the Republic Indonesia Number 4647) are amended as follows:

1. Provisions in Article 1 are amended to read as follows.

CHAPTER I

GENERAL PROVISIONS

Article 1

Terminologies used in this Bank Indonesia Regulation are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business based on sharia principles, including sharia business unit and foreign bank branch office conducting business based on sharia principles.
2. Sharia business unit, hereinafter referred to as UUS, is a working unit in a conventional commercial bank head office functioning as the main office of Islamic branch offices and/or sharia units.
3. Earning Assets are placements of Bank funds either denominated in the Rupiah or foreign currency in the form of financing, Islamic securities, placement, equity participation, temporary equity participation, commitment, contingency on administrative account transactions, Bank Indonesia *Wadiah* Certificate as well as other forms of equivalent fund provisions.
4. Financing is a provision of funds or claims considered of the kind in the form of:
 - a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
 - b. leasing transaction in the form of *Ijarah* or leasing with an option of transferring ownership in the form of *Ijarah Muntahiyah bit Tamlik*;
 - c. sale and purchase transaction in the form of *Murabahah*, *Salam*, and *Istishna'* account receivables;

d. lending-...

- d. lending-borrowing transaction in the form of *Qardh*; and
 - e. multiple service transaction under *Ijarah* or *Kafalah* agreement;
based on an agreement between Bank and another party requiring the party receiving finance and/or facility of funds to repay the funds after a specific term with repayment services and/or settling *mudharabah* and/or *musyarakah* investments and its management results based on the agreement.
5. *Mudharabah* is an investment from a fund owner (*shahibul maal*) to a fund manager (*mudharib*) to conduct a specific business, with a division of profit using profit sharing method or net revenue sharing method between those two parties based on a ratio agreed in advance.
 6. *Musyarakah* is an investment from a fund/capital owner to mix the fund/capital into a specific business, with a sharing of profit to be based on a ratio agreed in advance, while losses shall be borne by all fund/capital owners based on the proportion of respective fund/capital.
 7. *Murabahah* is a sale and purchase of goods amounting to the cost price of the goods plus a margin of profit as agreed.
 8. *Salam* is a sale and purchase of goods with a full payment of the price in advance.
 9. *Istishna'* is a sale and purchase of goods by ordering to make the goods in specific criteria and condition and to be paid as agreed.
 10. *Ijarah* is a leasing agreement between a leasing object owner including ownership on using right on the leasing object, between a leasing object owner and a lessee to acquire repayment services from the leasing object on leasing.
 11. *Ijarah Muntahiyah bit Tamlik* is a leasing agreement between a leasing object owner and a lessee to acquire repayment services from the leasing object on leasing with option of transferring the ownership of leasing object either through sale and purchase or donation (grant) at a specified time as agreed.
 12. *Qardh* is an agreement on lending and borrowing of funds without any repayment service requiring the debtor to repay the principal all at once or in installments in a specified term.
 13. Sharia Securities is a certificate proving an investment based on sharia principles customarily traded on the money and/or capital markets, including but not limited to Islamic bond, Islamic mutual fund certificate, and other securities based on sharia principles.
 14. Placement is a placement of Bank funds in other Bank and/or Rural Bank based on sharia principles in the form including but not limited to *Mudharabah* and/or *Wadiah* non negotiable deposit and/or savings deposit, *Mudharabah* savings deposit and/or time deposit, finance extended, and/or other forms of placement based on sharia principles.
 15. Equity Participation is a placement of Bank funds in the form of share in a company conducting business in sharia finance, including investment in the form of convertible bond with equity

options or...

options or specific transactions based on sharia principles resulting Bank in holding or will hold shares in a company conducting business in sharia finance.

16. Temporary Equity Participation is a placement of Bank funds in customer's company to resolve financing failure and/or debt to equity swap as referred to in applicable Bank Indonesia stipulations, including in the form of convertible bond with equity options or specific transactions resulting Bank in holding or will hold shares in a customer's company.
17. Off Balance Sheet Transactions are commitments and contingencies based on sharia principles, consisting of bank guarantees, acceptances/endorsements, outstanding irrevocable letters of credit (L/Cs), acceptance of import drafts based on issuance L/Cs, standby L/Cs, and other guarantees based on sharia principles;
18. Bank Indonesia *Wadiah* Certificate, hereinafter referred to as SWBI, is a certificate issued by Bank Indonesia as a proof of a short-term fund depositing based on *Wadiah* principles.
19. *Wadiah* is an agreement on fund or goods depositing from a fund or goods owner to a party entrusted to keep the deposit of funds or goods requiring the party entrusted to keep returning the deposit of funds or goods at any time.
20. Company Operating in the Islamic Financial Sector is a Islamic Bank, Rural Bank based on Sharia principles, and other company in another area of finance based on Sharia principles as stipulated in prevailing laws and regulations, including but not limited to leasing, venture capital, securities companies, insurance, and clearing, settlement, and custodian institutions;
21. Revenue Projection (RP) is estimated revenue to be received by Bank from customer in respect of *Mudharabah* and *Musyarakah* Financing extended in the amount and at the maturity date agreed by the Bank and the customer.
22. Realized Revenues (RR) are revenues acquired by Bank from customer in respect of *Mudharabah* and *Musyarakah* Financing extended.
23. Non-earning Assets are Bank's assets other than Earning Assets bearing potential losses, in the form including but not limited to foreclosed collateral, abandoned property, inter-office account, suspense account, and inventory.
24. Foreclosed collateral hereinafter referred to as AYDA, is assets acquired by bank, through auction or over the counter based on voluntary submission by collateral owner or based on the power of attorney to sell over the counter from collateral owner in the event of customer's failure in meeting liabilities to Bank.
25. Inter-office Account is claims arising from unsettled inter-office transactions in a specific period of time.
26. Suspense Account is an account of which the recording objectives are not identified or not supported by sufficient recording documentation thus it cannot be reclassified in the required account.

27. Inventory...

27. Inventory is temporary account available for non-cash assets before being delivered to financing customer in transaction based on Murabahah, Salam and Istishna.
 28. Allowance for Assets Losses, hereinafter referred to as PPA, is a reserve to be established amounting to a certain percentage based on assets quality.
 29. Independent Appraiser is an appraising company which:
 - a. Is not related in ownership, management, and finance either with Bank or customer obtaining facilities;
 - b. Conducts appraising activities based on professional code of ethics and regulations stipulated by competent institution;
 - c. Applies appraising methods based on appraisal profession standard issued by competent institution;
 - d. Holds business license issued by competent institution to operate as an appraising company; and
 - e. Is recorded as a member of an association recognized by competent institution;
 30. Finance Restructuring is an improvement effort made by Bank in Provision of Funds for a customer experiencing difficulties to meet its liabilities referring to applicable stipulations, namely religious instructions of the National Islamic Council and applicable financial accounting standards for Islamic bank.
2. Provisions in Article 16 are amended and added with 1 (one) paragraph, namely paragraph (2), to read as follows.

Article 16

- (1) Quality of Sharia Money Market Securities shall be rated as Current provided that it meets requirements as follows:
 - a. There is transparent information on the securities;
 - b. Repayment services are received in a proper amount and appropriate term as agreed; and/or
 - c. Has not been mature.
- (2) Sharia Money Market Securities failing to meet requirements as referred to in letter a, letter b, and letter c shall be categorized Loss.
- (3) Sharia Securities outside those as referred to in paragraph (1) include but not limited to the following:
 - a. Current, if :

1. Holds...

1. Holds investment rating or higher than rating agency recognized by Bank Indonesia and issued during the latest one year;
 2. Occasional payments of profit share/margin/fee or other liabilities of the kind are made in proper amount and appropriate term as agreed; and
 3. Has not been mature;
- b. Substandard, if:
1. Holds investment rating or higher than rating agency recognized by Bank Indonesia and issued during the latest one year;
 2. Delay occurs in occasional payments of profit share/margin/fee or other liabilities of the kind; and
 3. Has not been mature;
- or
1. Holds a rating of no less than 1 (one) level under investment rating of a rating agency recognized by Bank Indonesia and issued during the latest one year;
 2. No delay occurs in occasional payments of profit share/margin/fee or other liabilities of the kind; and
 3. Has not been mature;
- c. Loss, if securities do not meet criteria as referred to in letters a and b.
- (4) Sharia Securities Quality excluding Sharia Money Market Securities, having no rating is defined as follows:
- a. Will refer to the placement quality as referred to in Article 24, if issued by Bank; or
 - b. Will refer to the Financing quality as referred to in Article 9, if issued by Customer.
3. Provisions in Article 23 are revoked.
4. Provisions in Article 24 are amended and added with 1 (one) paragraph, namely paragraph (2), to read as follows.

Article 24

- (1) The quality of Placement shall be rated as follows.
- a. Current, if :
 - 1) bank receiving Placement holds Minimum Capital Requirement ratio at least equal to that stipulated; and
 - 2) it meets the following conditions:
 - i. there is no arrear in principal repayment based on *Qardh*, or

ii. there is...

- ii. there is no arrear in principal repayment based on *Wadiah*, or,
 - iii. there is no arrear in investment nominal repayment and/or profit share for saving or time deposit based on *Mudharabah*, or
 - iv. there is no arrear in investment nominal repayment and/or profit share of Realized Revenue (RR) ratio on Revenue Projection is equal or more than 80% (eighty percent) for *Mudharabah* and *Musyarakah* Financing,
- b. Substandard, if :
- 1) bank receiving Placement holds Minimum Capital Requirement ratio at least at the same level with the applicable stipulation; and
 - 2) it meets the following conditions:
 - i. there is arrear in principal repayment up to 5 (five) working days for *Qardh*, or
 - ii. cannot be withdrawn up to 5 (five) working days for current account and saving based on *Wadiah*, or
 - iii. there is arrear in payment of investment nominal and/or profit share up to 5 (five) working days for saving or time deposit based on *Mudharabah* principles, or
 - iv. there is arrear in payment of investment principal up to 5 (five) working days and/or the ratio of RR on RP is over 30% (thirty percent) up to 80% (eighty percent) or RR ratio is ??30% (thirty percent) of RP up to 3 (three) periods of payment for *Mudharabah* and *Musyarakah* Financing, or
 - v. there is arrear in payment of principal and/or margin up to 5 (five) working days for financing based on *Murabahah* principles
- c. Loss, if :
- 1) Bank receiving Placement holds a Minimum Capital Requirement ratio less than applicable stipulation;
 - 2) Bank receiving Placement has been stated and announced as a bank with a status of under special surveillance or bank has been imposed on sanction of freezing of its entire business activity;
 - 3) Bank receiving Placement is declared as a bank under liquidation; and/or
 - 4) It meets the following requirements:
 - i. There is arrear in principal payment for *Qardh* of more than 5 (five) working days or
 - ii. Cannot be withdrawn at the exceeding time of 5 (five) working days for demand deposit and saving deposit based on *Wadiah*, or
 - iii. There is an arrear in payment of investment nominal and/or profit sharing of more than 5 (five) working days for saving or deposit based on *Mudharabah*, or

iv. There is...

- iv. There is arrear in investment principal payment of more than 5 (five) working days and/or ratio of Realized Revenue on Revenue Projection is at the same level or less than 30% (thirty percent) for 3 (three) payment periods for Financing based on Mudharabah and Musyarakah, or
 - v. There is arrear in principal payment and/or margin of more than 5 (five) working days for financing based on Murabahah.
- (2) The quality of placement in the form of financing to the Islamic Rural Bank in the framework of Linkage Program with executing pattern constituted as follows:
- a. Current, if :
 - 1) Islamic Rural Bank receiving placement holds minimum capital requirement ratio at least equal to the applicable stipulations ; and
 - 2) It meets the following requirements:
 - i. There is no arrears in principal repayment based on Qardh, or
 - ii. Can be Withdrawn any time for savings based on Wardiah, or
 - iii. There is no arrear in payment of investment nominal and/or profit share for savings or time deposit based on Mudharabah, or
 - iv. There is no arrear in principal payment of investment and/or Realized Revenue on Revenue Projection is at the same level or more than 80% (eighty percent) for financing based on Mudharabah and Musyarakah, or
 - v. There is arrear in principal repayment and/or margin for Financing based on Murabahah.
 - b. Substandard, if :
 - 1) Islamic Rural Bank receiving placement holds minimum capital requirement ratio of at least equal to the applicable stipulations ; and
 - 2) It meets the following requirements :
 - i. There is arrear in principal repayment up to 30 (thirty) working days for Qardh, or
 - ii. Can not be withdrawn up to 30 (thirty) working days for saving based on Wadiah, or
 - iii. There is arrear in investment nominal repayment and/or profit share up to 30 (thirty) working days for saving or time deposit based on Mudharbah, or
 - iv. There is arrear in principal investment repayment up to 30 (thirty) working days and/or Realized Revenue ratio on Revenue Projection is more than 30% (thirty percent) up to 80% (eighty percent); or Realized Revenue ratio on Revenue Projection is equal or less than 30% (thirty percent) up to 3 (three) payment periods for financing based on Mudharabah and Musyarakah, or

v. There is...

- v. There is arrear in principal repayment and/or margin up to 30 (thirty) working days for financing based on Murabahah.
- c. Loss, if :
 - 1) Islamic Rural Bank receiving placement holds minimum capital requirement ratio less than the applicable stipulations,
 - 2) Islamic Rural Bank receiving placement has been stated and announced as Islamic Rural Bank with a status of special surveillance or the Islamic Rural Bank has been imposed or sanction of freezing of its entire business activity ;
 - 3) Islamic Rural Bank receiving placement is stated as a bank under liquidation ; and/or
 - 4) It meets the following requirements :
 - i. There is arrear in principal repayment of more than 30 (thirty) days for Qardh, or
 - ii. Cannot be withdrawn more than 30 (thirty) days for saving based on Wadiah, or
 - iii. There is arrear in investment nominal repayment of and/or profit share of more than 30 (thirty) days for saving and/or deposit based on Mudharbah, or
 - iv. There is arrear in principal repayment of investment more than 30 (thirty) days and/or ratio of Realized Revenue to Revenue Projection is at the same level or less than 30% (thirty percent) more than 3 (three) repayment periods for financing based on Mudharabah and Musyarakah, or
 - v. There is arrear in principal repayment and/or margin more than 30 (thirty) days for financing based on Murabahah principle.
- 5. Between Articles 24 and 25, is inserted 1 (one) article such as Articles 24 A, so that it reads as follows:

Articles 24 A

The quality of acceptance receivables is determined as follows

- a. To follow placement quality as stipulated in Article 24 in the event that the party obliged to settle the payment is other bank, or
 - b. To follow financing quality as stipulated in Article 9 in the event that the party obliged to settle the payment is customer.
6. Provisions of Article 25 are amended to read as follows:

Article 25...

Article 25

The quality of the Administrative Account Transaction is determined as follows:

- a. To follow the Placement quality as stipulated in Article 24 in the event that the counterparty of Administrative Account Transaction is other bank conducting business activity based on Sharia principles, or
 - b. To follow the financing quality as stipulated in Article 9 in the event that the counterparty of Administrative Account Transaction is customer.
7. 1 (one) article is inserted between article 25 and 26 namely Article 25 A, so that it reads as follows:

Article 25 A

- (1) The quality statement of Administrative Account Transaction as stipulated in Article 25 is declared no longer valid for the obligation of commitment and contingency that:
 - a. Unconditionally cancelled at anytime by the Bank, or
 - b. Automatically cancelled by the Bank in the event that customer's condition is downgraded to Substandard, Doubtful or Loss.
 - (2) Bank having commitment and contingency obligation as referred to in paragraph (1) is obliged to include a clause as referred to in paragraph (1) letter a or b in the agreement between the Bank and customer.
8. Provision in Article 26 is amended and 1 (one) paragraph is added namely paragraph (2), so that the Article 26 will read as follows:
- (1) Rating of financing quality and provision of other fund shall be based on repayment ability as referred to in the Article 9 paragraph (1) letter a and shall be valid only for :
 - a. Financing and Provision of other fund amounting up to Rp 500,000,000.00 (five hundred million Rupiahs) for 1 (one) individual customer or group customer ;
 - b. Financing and Provision of other fund granted by Bank to SMEs amounting to:
 - 1). more than Rp 500,000,000.00 (five hundred million Rupiahs) up to Rp 20,000,000,000.00 (twenty billion rupiahs) for Bank meeting the following criteria:
 - i. Possessing "strong" predicate in quality rating of risk control system for credit risk from financing.
 - ii. Possessing adequate bank rating or at least composite rating 3, and
 - iii. Possessing Minimum Capital Adequacy Ratio at least equal to that stipulated.
 - 2). more...

- 2). more than Rp 500,000,000.00 (five hundred million rupiahs) up to Rp 10.000.000.000,- (ten billion rupiahs) for bank meeting the following criteria :
 - i. Possessing “acceptable” predicate in quality rating of risk control system for credit risk from financing.
 - ii. Possessing adequate bank rating or at least composite rating 3, and ;
 - iii. Possessing Minimum Capital Adequacy Ratio at least equal to that stipulated.
 - (2) For sharia business unit (UUS), predicate in quality rating of risk control system for credit risk from financing shall refer to the outcome of UUS evaluation, while evaluation on Minimum Capital Adequacy Ratio and Bank Rating shall refer to the result of evaluation of its parent Bank.
 - (3) Provision as referred to in paragraph (1) letter b and paragraph (2) shall not be applicable for Financing and Provision of other fund provisions granted to 1 (one) SME customer amounting to more than IDR 500.000.000,00 (five hundred million Rupiah) including:
 - a. Restructured financing; and/or
 - b. Fund Provision for 50 (fifty) Bank biggest customers.
 - (4) The Restructured Financing Quality as referred to in paragraph (3) letter a shall conducted based on provisions as referred to in Article 46, Article 46A and Article 47.
9. Between the Article 26 and Article 27, is inserted 1 (one) Article, namely Article 26A that shall read as follows:

Article 26A

- (1) The predicate in quality rating of risk control system for credit risk from financing, Minimum Capital Adequacy Ratio and Bank Rating used in the quality rating of Financing and Provision of other fund as referred to in Article 26 paragraph (1) letter b and Article (2) shall be based on Bank Indonesia evaluation.
- (2) The use of predicate in quality rating of risk control system for credit risk from financing, Minimum Capital Adequacy Ratio and Bank Rating in the quality rating of Financing and Provision of other fund as referred to in Article 26 paragraph (1) letter b and Article (2) shall be conducted as follows:

Other funding as referred in Article 26 paragraph (1) letter b and paragraph (2) shall conduct as follows:

 - a. Quality rating of Financing and Provision of other fund from January to June shall use at the latest the position of September; and
 - b. Quality rating of Financing and Provision of other fund from July to December shall use at the latest the position of March.

10. Provisions...

10. Provisions in Article 27 are amended to read as follows :

Part Seven

Financing and Provision of other fund at Certain Areas

Article 27

Financing and Provision of other fund to customer with business activities located in certain areas amounting to IDR 1.000.000.000,00 (One billion Rupiah) shall be based on the evaluation of repayment ability factor.

11. Provisions in Article 30 are amended to read as follows:

Article 30

- (1) Bank is required to re-evaluate AYDA based on net realizable value :
 - a. At the moment of the collateral is took over; and
 - b. At the following moments after the collateral was took over.
- (2) Determination of net realizable value as referred to in paragraph (1) must be conducted by Independent Appraiser, for foreclosed collateral with a value of IDR 5.000.000.000,00 (five billion rupiah) or more.

12. Provisions in Article 39 Paragraph (1) are amended to read as follows.

Part Two

Establishment Procedure

Article 39

- (1) Establishment of PPA general reserves as referred to in Article 38 Paragraph (2) letter a shall be defined as follows:
 - a. No less than 1% (one percent) of total Earning Assets classified as Current;
 - b. Establishment of general reserves as referred to in paragraph (1) letter a not including earning assets in the form of Bank Indonesia *Wadiah* Certificate, securities issued by the Government based on Sharia principles and part of earning assets guaranteed by government bonds and cash collateral as referred to in Article 41 letter a.
- (2) Special reserve Allowance for Assets Losses shall be defined at least :

a. 5 % (five percent)...

- a. 5 % (five percent) of Assets classified as “Under Special Mention” after deducted by collateral value; and
 - b. 15% (fifteen percent) from Assets classified as “Substandard”, after deducted by collateral value; and
 - c. 50% (fifty percent) from Assets classified as “Doubtful” after deducted by collateral value; and
 - d. 100% (one hundred percent) from Assets classified as “Loss” after deducted by collateral value;
- (3) Requirement to establish PPA as referred to in paragraph (1) and paragraph (2) shall not be applicable for Earning Assets for leasing transaction in the form of Ijarah or leasing transaction with transfer of ownership of leasing object in the form of Ijarah Muntahiyah bit Tamlik.
- (4) Bank is required to establish depreciation/amortization for leasing transaction, with provisions as follows:
- a. Ijarah shall be depreciated/amortized based on Bank’s depreciation policy for similar assets;
 - b. Ijarah Muntahiyah bit Tamlik shall be depreciated in accordance with the term of lease.
- (5) The use of collateral value as offsetting factor in PPA calculation as referred to in paragraph (2) may only be applied to Earning Assets.
13. Article 41 is amended to read as follows:

Part Three

Collateral Appraisal

Article 41

Collateral that may be assigned as offsetting factor in establishing PPA shall comprise:

- a. Collateral cash in the form of demand deposit, saving deposit, time deposit, guarantee deposits, and/or gold and enclosed with power of attorney to disburse;
- b. Indonesian Governments Guarantee as stipulated in prevailing laws and regulations;
- c. Bank Indonesia *Wadiah* Certificate and/or securities and/or claim issued by the Government;
- d. Islamic securities with investment grade and actively traded in the capital market;
- e. Land, building, house, airplane and ship with a size over 20 (twenty) cubic meters;
- f. Vehicle and Inventory bound under fiduciary term;
- g. Machinery assumed as one unity with land and bound with mortgage;
- h. Warehouse receipt bound with guarantee right on warehouse receipt.

14. Provisions...

14. Provisions in article 42 are amended to read as follows:

Article 42

Collateral value that may be assigned as offsetting factor in establishing PPA as referred to in Article 39 and Article 41 is defined as follows:

- a. For cash collateral in the form of demand deposit, saving deposit, time deposit, guarantee deposits and/or gold enclosed with a power of attorney to disburse at a maximum of 100% (one hundred percent);
- b. For Indonesian Government collateral based on stipulations in prevailing laws and regulations at a maximum of 100% (one hundred percent);
- c. For collateral in the form of Bank Indonesia *Wadiah* Certificate and securities issued by the Government at a maximum of 100% (one hundred percent);
- d. For collateral in the form of Islamic securities actively traded at the capital market or with investment grade and/or warehouse receipt at a maximum of 50% (fifty percent);
- e. For collateral in the form of land, building, house, airplane and ship, vehicle, inventory, machine assumed as one unity with land and bound with mortgage as referred to in Article 41 letter g, and warehouse receipt as referred in Article 41 letter h at no more than:
 - 1) 70% (seventy percent) of appraisal, for appraisal conducted before surpassing 12 (twelve) months;
 - 2) 50% (fifty percent) of appraisal, for appraisal conducted after surpassing 12 (twelve) months but has not surpassed 18 (eighteen) months;
 - 3) 30% (thirty percent) of appraisal, for appraisal conducted after surpassing 18 (eighteen) months but has not surpassed 30 (thirty) months.
 - 4) 0% (zero percent) of appraisal, for appraisal conducted after surpassing 30 (thirty) months.

15. Provisions in article 42 are amended to read as follows:

Article 43

Appraisal to collateral as referred in Article 42 shall be conducted as follows:

- a. using the market value recorded at the capital market at the end of the month for Islamic securities actively traded at the capital market;
- b. based on normal market value for land and house;
- c. based on normal market value for building, airplane, ship, vehicle, inventory, and machine assumed as one unity with land and bound with mortgage;
- d. based on value determined by relevant authorized party or institution as stipulated in prevailing laws and regulations for warehouse receipt.

16. Provisions...

16. Provisions in Article 46 are amended and added with 1 (one) paragraph, namely paragraph (6), to read as follows:

CHAPTER VI

FINANCING RESTRUCTURING

Article 46

- (1) Bank is required to have written policy and procedures on financing restructuring, as follows:
 - a. Restructuring policy shall be approved by Board of Commissioners;
 - b. Restructuring implementation procedures shall be approved at least by the Board of Directors;
 - c. The Board of Commissioners shall conduct active supervision on the implementation of restructuring policy;
 - d. Restructuring policy and procedures are inseparable part of Bank risk management policy as stipulated by the applicable Bank Indonesia Regulations.
- (2) Bank may only conduct financing restructuring on customers meeting the following criteria:
 - a. Customer has experience or estimated to experience a decline or difficulty in ability to repay and/or to meet liabilities; and
 - b. Customer has a good business prospect and has the ability to meet liabilities after restructuring.
- (3) Restructuring effort and mechanism as referred to in Paragraph (1) shall be implemented in accordance with stipulations of Bank Indonesia and based on Sharia principles.
- (4) Classification of quality on restructured Financing is as follows:
 - a. As high as Substandard for the Financing classified as “Doubtful” or “Loss” before restructuring;
 - b. The quality remains unchanged for Financing classified as “Current”, “Under Special Mention” or “Substandard” before restructuring.
- (5) Financing quality as referred to in paragraph (4) may:
 - a. Become Current, if no arrear in principal repayment and/or profit share/margin/fee or other similar liabilities that are similar in 3 (three) consecutive payment period and/or at the earliest in 3 (three) months; or
 - b. Regain the quality before Financing Restructuring or the actual quality if it is worse compared to previous criteria as referred to in Article 9, or if the debtor fails to meet the criteria and/or the requirements in the Financing Restructuring agreement and/or

implementation of...

implementation of Financing Restructuring is not supported by adequate analysis and documentation.

- (6) The quality rating of restructured Financing up to IDR 500.000.000,00 (five hundred million rupiah) shall be based on customer's ability in repayment.

17. 1 (one) Article, namely Article 46A is inserted between Article 46 and Article 47 to read as follows:

Article 46A

- (1) The quality of restructured Financing that has been restructured shall be reevaluated in accordance with the provisions as referred to in Article 9 at the latest 1 (one) year since the determination of quality as referred to in Article 46 paragraph (4).
- (2) The quality evaluation of Financing fails to meet the criteria and/or requirements in the agreement of Financing Restructuring as referred to in Article 46 paragraph (5) letter b shall be conducted in accordance with provisions as referred to in Article 9.

18. Provisions in Article 50 paragraph (1) are amended to read as follows:

CHAPTER VIII SANCTIONS

Article 50

- (1) Bank failing to comply with provisions as referred to in Article 2, Article 4, Article 5, Article 6, Article 7, Article 8 Paragraph (1), Article 12 Paragraph (5), Article 13 Paragraph (2) and Paragraph (3), Article 14, Article 17, Article 20 Paragraph (1) and Paragraph (2), Article 22, Article 28, Article 29, Article 30, Article 32, Article 33, Article 35, Article 36, Article 38, Article 39, Article 42, Article 43, Article 44 Paragraph (1) and Paragraph (4), Article 45 Paragraph (3), Article 46 Paragraph (1) towards Paragraph (3), Article 46A, Article 47, Article 48, Article 49, and Article 55 shall be liable to administrative sanctions as referred to in Article 52 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 including but not limited to :
- a. Written warning;
 - b. Downgrading the bank rating; and/or
 - c. Replacement of Management.
- (2) In addition to the sanctions as referred to in Paragraph (1), the Bank conducting violations to Article 17 shall be required to establish PPA amounting to 100% (one hundred percent) on the concerned assets.

Article II...

Article II

This Bank Indonesia Regulation shall be in force since the date of its enactment.

Enacted at Jakarta

Dated: June 18, 2007

Governor of Bank Indonesia

BURHANUDDIN ABDULLAH

Promulgated in Jakarta

Dated: June 18, 2007

Minister of Law and Human Right of Republic Indonesia

ANDI MATTALATTA

ELUCIDATION TO
BANK INDONESIA REGULATION
NUMBER: 9/9/PBI/2007
CONCERNING
AMENDMENT TO BANK INDONESIA REGULATION
NUMBER 8/21/PBI/2006 CONCERNING
THE QUALITY RATING OF ASSETS OF COMMERCIAL BANKS
CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES

GENERAL REVIEW

In maintaining its business sustainability, Bank is required to manage credit risk adequately in order to minimize any potential loss. Credit risk management shall be conducted among others, by maintaining the quality of financing in the form of a maintained assets quality and the establishment of sufficient allowance for assets losses.

With a well managed risk reflected from the maintained assets quality and sufficient allowance for assets losses, Bank is expected to enhance its role as an intermediary institution.

ARTICLE BY ARTICLE

Number 1

Self explanatory

Number 2

Article 16

Paragraph (1)

Included in the group of Securities of Islamic Money Market is among others the Mudharabah Interbank Investment Certificate (SIMA) and Islamic Mutual Funds.

Letter a

Transparent means the availability of securities information in the existing information system in Bank Indonesia.

Letter b

Self Explanatory

Letter c

Self Explanatory

Paragraph (2)...

Paragraph (2)

Self Explanatory

Paragraph (3)

Besides Islamic Money Market Securities, Islamic Securities includes Islamic Mutual Funds and securities related to certain assets based on Sharia principles.

Investment grade and rating agency are rating and rating agency acknowledged by Bank Indonesia in accordance with the applicable stipulations regarding Rating Agency and Grade.

Paragraph (4)

Securities having no grade based on its characteristics include but not limited to medium term note and repossession of sight L/C.

Number 3

Self Explanatory

Number 4

Article 24

Minimum Capital Requirement (KPPM) ratio is the KPPM ratio as stipulated by Bank Indonesia for local banks or by the competent authority for banks located abroad.

KPPM ratio is based on the latest condensed financial statement in accordance with the period stipulated by the competent authority. In the event of an absence of the latest condensed financial statement or KPPM data in the latest condensed financial statement, bank shall be considered to have KPPM lower than the applicable stipulation.

Linkage Program is the collaboration between Commercial banks and Rural Banks including Islamic Banks and Islamic Rural Banks in financing distribution to Micro, Small and Medium Enterprises (MSME). Linkage Program with executing pattern is a loan provided from Banks to Islamic Rural Banks for financing to be provided to customers from Micro and Small Enterprises.

Number 5

Article 24A

Acceptance receivables are receivables produced due to the acceptance conducted on time draft.

Number 6

Paragraph (2)

Article 25

Self Explanatory

Number 7

Article 25A

Self Explanatory

Number 8

Article 26

Paragraph (1)

Letter a

Other provision of funds is the issuance of guarantee or opening of Letter of Credit (L/C).

Letter b

The definition of Small and Medium Enterprises (SME) refers to the applicable stipulations.

The current definition of Small Business is regulated in Act Number 9 of 1995 regarding Small Enterprises, which is an enterprise fulfilling the following criteria:

- a. possessing a total asset amounting to up to Rp 200,000,000 (two hundred million rupiah) not including land and building;
- b. possessing a total annual sales not more than Rp 1,000,000,000 (one billion rupiah);
- c. owned by Indonesian citizen;
- d. an independent company, not a subsidiary or branch company owned or affiliated directly or indirectly with medium or large company;
- e. in the form of individual company, company with no legal entity, and/or company with legal entity.

The current definition of Small Business is among others regulated in Act Number 10 of 1999 regarding Development of Medium Scale Enterprises, which is an enterprise fulfilling the following criteria:

- a. possessing a total asset amounting to more than Rp 200,000,000 (two hundred million rupiah) up to Rp 10,000,000,000 (ten billion rupiah) not including land and building;
- b. owned by Indonesian citizen;

c. an independent

- c. an independent company, not a subsidiary or branch company owned or affiliated directly or indirectly with medium or large company;
- d. in the form of individual company, company with no legal entity, and/or company with legal entity.

Number 1) and Number 2)

Letter i

The adequacy of risk control system refers to the applicable stipulations of Bank Indonesia regarding Risk Management for Commercial Bank covering:

1. Active supervision of Bank Board of Commissioners and Board of Directors;
2. Adequacy of policy, procedures and limit determination;
3. Adequacy of identification, measurement, monitoring and risk management information system; and
4. A comprehensive internal control system,

The very adequate (strong) predicate of adequacy rating of risk control system for credit risk from financing is reflected from the effective application of all components of control system on financing credit risk in maintaining a sound internal bank condition. In the event of weakness in applying the control system, the weakness will have no material factor to the entire credit risk of financing and corrective measures shall be taken immediately so as not to cause any significant effect to the Bank condition.

While a reliable (acceptable) financing credit risk is reflected from the effective application of all components of control system on financing credit risk in maintaining a sound internal bank condition. In the event of weakness in applying the control system, the weakness will have no material factor to the entire credit risk of financing and if corrective measures are not taken immediately, a significant effect may arise to the Bank condition.

Letter ii

Bank Rating refers to the applicable stipulations.

Letter iii

Self Explanatory

Paragraph (2)

Self Explanatory

Paragraph (3)

Paragraph (3)

The 50 (fifty) biggest customers are 50 (fifty) bank individual customers.

The 50 (fifty) biggest customers for sharia business unit (UUS) are 50 (fifty) existing UUS individual customers.

Paragraph (4)

Self Explanatory

Number 9

Article 26A

Paragraph (1)

Bank Rating refers to the applicable stipulations.

Paragraph (2)

Self Explanatory

Number 10

Article 27

Financing and provision of other funds to customer with business activities located in a specific area is Financing or provision of funds from Bank for investment and/or working capital in a certain area which, according to Bank Indonesia, needs special treatment to encourage economic development in the particular area in accordance with the applicable stipulations of Bank Indonesia concerning Financing and Provision of funds in certain area.

Number 11

Article 30

Paragraph (1)

Net realizable value is the reasonable value of taken over collateral obtained from estimated market price deducted by estimated cost of discharge.

The following periods after collateral take-over are the time of annual financial verification conducted by Public Accountant.

Paragraph (2)

AYDA having a value less than Rp 5,000,000,000,- (five billion rupiah) is allowed to have Bank internal appraiser.

Number 12...

Number 12

Article 39

Paragraph (1)

Self Explanatory

Paragraph (2)

Self Explanatory

Paragraph (3)

Self Explanatory

Paragraph (4)

Amortization for *Ijarah* and/or *Ijarah Muntahiyah bit Tamlik* refers to applicable financial accounting standards for Islamic banks.

The amortization policy to be selected shall reflect consumption pattern to be expected from the benefit of *Ijarah* economic objects in the future.

Paragraph (5)

Self Explanatory

Number 13

Article 41

Letter a

Demand deposit, savings deposit and time deposit include demand deposit, savings deposit and time deposit in conventional commercial banks.

Letter b

Indonesian government is the central government.

Letter c

Self Explanatory

Letter d

Investment rating and rating agency are rating and rating agency acknowledged by Bank Indonesia in accordance with the applicable stipulations regarding Rating Agency and Grade. If no grade available in the last one year published by the rating agency, the securities will be considered to hold no rating.

Letter e

Self explanatory

Letter f...

Letter f

Collateral binding under fiduciary term shall be in accordance with applicable stipulations and procedures in laws, including but not limited to registration, thus Bank holds a preference right on the concerned collateral.

Letter g

Collateral binding under mortgage shall be in accordance with applicable stipulations and procedures in laws, including but not limited to registration, thus Bank holds a preference right on the concerned collateral. Imposition of mortgage on land and machine available on the land shall be explicitly stated in the Act of Mortgage Imposition.

Letter h

Warehouse Receipt is warehouse receipt as referred to in Act Number 9 of 2006 concerning Warehouse Receipt System and other regulations. Guarantee right on Warehouse Receipt is guarantee right imposed on warehouse receipt for debt settlement, and provides priority for guarantee right holder compared to other creditor.

Number 14

Article 42

Letter a

Only basic credit may be assigned as subtracting factor for collateral in the form of current account, saving and deposit in commercial conventional bank is

Letter b

Self explanatory

Letter c

Self explanatory

Letter d

Self explanatory

Letter e

Appraisal is a written statement of an Independent Appraiser or a Bank internal appraiser on appraisal and opinion on the economic value of collateral in the form of fixed assets based on analysis on objective and relevant facts in accordance with commonly applicable method and principles stipulated by competent association or institution.

Number 15...

Number 15

Article 43

Reasonable value refers to the applicable financial accountancy standard.

Number 16

Article 46

Paragraph (1)

Written policy and procedures include but not limited to official and working unit holding authority in the process of restructuring, process of the analysis on provision of funds to be restructured, and periodic report on restructuring.

Paragraph (2)

In the event that Bank estimates customer business condition to experience a decrease of difficulty in repayment ability or liability fulfillment, it shall be supported by sufficient analysis and evidences and well documented.

Paragraph (3)

In accordance with Sharia principles include but not limited to religious instructions issued by National Islamic Council.

Paragraph (4)

Self Explanatory

Paragraph (5)

Letter a

In the event that the term of payment of principal installment and/or profit share/margin/fee is less than 1 (one) month, the quality improvement to become Current may be conducted by no earlier than 3 (three) months since restructuring.

Letter b

Self Explanatory

Paragraph (6)

Finance restructuring includes Financing for Small and Medium Scale Enterprises and Non Small and Medium Scale Enterprises.

Number 17

Article 46A

Paragraph (1)...

Paragraph (1)

Self Explanatory

Paragraph (2)

Self Explanatory

Number 18

Article 50

Paragraph (1)

Self Explanatory

Paragraph (2)

Self Explanatory

Article II

Self Explanatory